

IRS News Release

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New Law Expands IRA Options for Military Many Can Still Contribute for 2004 and 2005

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WASHINGTON — Members of the military serving in Iraq, Afghanistan and other combat zone localities can now put money into an individual retirement account, even if they received tax-free combat pay, according to the Internal Revenue Service.

Under the Heroes Earned Retirement Opportunities (HERO) Act, signed into law on Memorial Day, taxpayers can now count tax-free combat pay when determining whether they qualify to contribute to either a Roth or traditional IRA. Before this change, members of the military whose earnings came entirely from tax-free combat pay were generally barred from using IRAs to save for retirement.

“The HERO act is one more way to let our fighting forces in combat areas know that we support them,” said IRS Commissioner Mark W. Everson. “This is a good way for people serving in combat zones to save more of their earnings for retirement.”

In addition, the HERO Act allows military personnel who received tax-free combat pay in either 2004 or 2005 to go back and make IRA contributions for those years. Eligible military members will have extra time, until May 28, 2009, to make these special back-year contributions.

For those under the age of 50, the IRA contribution limit was \$3,000 for 2004 and \$4,000 for 2005. For those 50 and over, the limit was \$3,500 for 2004 and \$4,500 for 2005.

Taxpayers choosing to put money into a Roth IRA don't need to report these contributions on their individual tax return. Roth contributions are not deductible, but distributions, usually after retirement, are normally tax-free. Income limits and other special rules apply.

On the other hand, contributions to a traditional IRA are often, though not always, deductible, and distributions are generally taxable.

Deductible or not, contributions to a traditional IRA must be reported on the return for the year made. Deductible contributions are claimed on Form 1040, 1040A or 1040NR. Nondeductible contributions are reported on Form 8606, which is normally attached to one of these individual return Forms.

If a return has already been filed for a particular year, contributions should be reported on an amended return, Form 1040x. Depending upon the circumstances, military personnel who choose to put money into a traditional IRA for 2004 or 2005 may qualify for additional tax refunds.

For those planning ahead, the IRA contribution limit for 2006 is \$4,000 for those under age 50 and \$5,000 for those 50 and over.

